1. ORGANISATION AND OPERATIONS

Egana Jewellery & Pearls Limited (the "Company") was incorporated in the Cayman Islands. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27th July, 1998.

The Directors consider EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil"), a limited company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange, to be the ultimate holding company.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, manufacturing, distribution and trading of jewellery products, (ii) licensing or assignment of brandnames to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces, and (iii) holding of investments.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of certain leasehold land and buildings and investments in non-trading and trading securities.

The HKICPA has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

During the year, the Group has adopted the following new HKFRSs:

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 3	Business Combinations

The effect of adopting these new HKFRSs is set out below in Notes 2(e)(i) and (ii).

The Group has not early adopted other new HKFRSs except for those mentioned above in the accounts for the year ended 31st May, 2005.

The Group has already commenced an assessment of the impact of other new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st May.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on disposal of a subsidiary is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term purpose and significant influence is exercised in its management.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(b) Group accounting *(Cont'd)*

(ii) Associated company *(Cont'd)*

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill (net of accumulated impairment losses) on acquisition.

Equity accounting is discontinued when the carrying amount of the interest in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iii) Translation of foreign currencies

In the accounts of the individual companies, transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

For the purpose of consolidation, the balance sheet of subsidiaries and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed periodically with the last valuation performed on 31st May, 2005. In the intervening years, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(ii) Freehold land and buildings

Freehold land is not subjected to depreciation and is stated at cost less accumulated impairment losses, while buildings situated thereon are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Other fixed assets

Other fixed assets, comprising leasehold improvements, plant and machinery, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Fixed assets *(Cont'd)*

(iv) Depreciation

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost or valuation of each asset over its expected useful life. Leasehold land and buildings are depreciated over the shorter of the remaining period of the respective lease and estimated useful life. The principal annual rates are as follows:

Freehold land	Nil
Buildings on the freehold land	5%
Leasehold improvements	10% to 25%
Plant and machinery	15%
Furniture and fixtures	15% to 33⅓%
Motor vehicles	25%

(v) Gain or loss on disposal

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of the assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(e) Intangible assets

(i) Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries/ associated companies/businesses at the date of acquisition.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill on acquisitions occurring on or after 1st January, 2001 is amortised using the straight-line method over estimated useful lives of fifteen to twenty years. Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves in the year of acquisition or amortised over a period of fifteen years.

With the adoption of HKFRS 3, amortisation of goodwill has been discontinued since 1st June, 2004, and the related accumulated amortisation brought forward is transferred and eliminated against the cost of the goodwill. As a result, the Group's profit for the year ended 31st May, 2005 was increased by approximately $6,740,000. Goodwill previously written off against reserves will not be recognised in profit and loss account when all or part of the businesses to which the goodwill relates is disposed or when a cash-generating unit to which the goodwill relates becomes impaired. Goodwill is included in intangible assets and interests in associated companies at cost less accumulated impairment losses and subject to impairment testing at least annually.

Negative goodwill represents the excess of the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(e) Intangible assets *(Cont'd)*

(i) Goodwill/Negative goodwill *(Cont'd)*

With the adoption of HKFRS 3, negative goodwill for acquisitions after 1st June, 2004, is recognised in the profit and loss account immediately on acquisition.

The carrying amount of negative goodwill previously recognised prior to 1st June, 2004, including that credited to the goodwill reserve, has been credited to the opening balance of retained profits. As a result, the Group's opening retained profits as at 1st June, 2004 was increased by approximately $81,963,000 with the corresponding decrease in the goodwill reserve of approximately $81,963,000.

(ii) Trademarks

Trademarks are shown at historical cost or fair value. Trademarks with indefinite useful lives are carried at cost less accumulated impairment loss, if any. Trademarks with indefinite useful lives are not amortised but are tested for impairment.

On the first time adoption of HKAS 38, the Group reassessed the useful lives of previously recognised intangible assets. As a result of this assessment, the acquired trademarks of the Group were classified as indefinite-lived intangible assets in accordance with HKAS 38. This conclusion is supported by the fact that the trademarks legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration. In addition, as the trademarks are related to well known and long established luxury and fashion consumer brands, based on the expected future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view is supported by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer, who has been appointed by the Group to perform an assessment of the useful lives of the trademarks in accordance with the requirements set out in HKAS 38. Having considered the factors specific to the Group, the valuer considered that the trademarks should be regarded as an intangible asset with an indefinite useful life. Since 1st June, 2004, the amortisation of trademarks has been discontinued and accordingly, the Group's profit for the year ended 31st May, 2005 was increased by approximately $738,000. Such change was accounted for as a change in accounting estimate which was reflected in the accounts prospectively. Under HKAS 38, the Group re-evaluates the useful lives of the trademarks each year to determine whether events or circumstances continue to support the view of indefinite useful life for the assets.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(e) Intangible assets *(Cont'd)*

(ii) Trademarks *(Cont'd)*

In accordance with HKAS 36, the Group completed its annual impairment test for the trademarks by comparing their recoverable amounts to their carrying amounts as at 31st May, 2005. The Group appointed LCH (Asia-Pacific) Surveyors Limited, independent professional valuer, to conduct valuations of the trademarks based on value-in-use calculation. The resulting values of the trademarks as at 31st May, 2005 were significantly higher than their carrying amounts.

The valuations use cash flow projections based on financial estimates covering a twelve-month period, expected royalty rates deriving from the trademarks in the range of 6% to 7% and a discount rate of 10%. The cash flows are extrapolated using a steady long-term growth rate of 3.5%. This growth rate does not exceed the long-term average growth rate for luxury consumer markets in which the Group operates. The Directors have considered the above assumptions and valuations and also taken into account the business development going forward and the strategic distribution expansion worldwide. In the opinion of the Directors, there is no indication of impairment in the carrying amounts of the trademarks. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amounts of the trademarks to exceed the aggregate recoverable amounts.

(iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of five years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Other intangible assets

Other intangible assets represent (1) costs of licences acquired from third parties, which have a definite useful life and are amortised using the straight-line method over their estimated useful lives, but not exceeding twenty years; and (2) costs of acquiring the know-how of businesses which are amortised using the straight-line method over their estimated useful lives of fifteen years.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised immediately in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(g) Investments in securities

(i) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair values of individual securities are credited or debited to the revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investment is impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and cash investments with a maturity of three months or less from date of investment.

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group operates a defined contribution plan, the assets of which are held in separate trustee-administered funds. The defined contribution plan is funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill (or negative goodwill) or from initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has the legally enforceable right and intends to settle its current tax assets and liabilities on net basis.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts, where necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Turnover

Turnover represents (1) gross invoiced sales, net of discounts and returns and (2) income from licensing or assignment of brandnames or trademarks.

(o) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenues and costs, if applicable, can be measured reliably, turnover and other revenues are recognised on the following bases:

(i) Sales of goods

Sales of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers which generally coincides with the time when the goods are delivered to the customers and title has passed.

(ii) Income from licensing or assignment of brandnames or trademarks

Income from licensing or assignment of brandnames or trademarks is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(iii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting structure, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of geographical segment reporting, turnover and segment results are based on the destination of delivery of merchandise. Total assets and capital expenditure are based on where the assets are located.

(r) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward, option and swap transactions undertaken by the Group in the precious metals, foreign exchange and interest rate markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing or hedging purposes.

Financial instruments undertaken for dealing purposes which consist of written currency options and interest rate swaps are marked to market and the gain or loss arising therefrom is recognised in the profit and loss account.

Gains and losses on financial instruments designated and qualified as hedges, which consist of precious metals and currency forward contracts for hedging of firm commitments, are deferred and recognised as part of the firmly committed transactions when they occur.

Assets relating to off-balance sheet option and interest rate swap contracts which are marked to market are included in "Deposits, prepayments and other receivables" in the accounts. Liabilities resulting from such contracts are included in "Accounts payable, accruals and other payables" in the accounts.

3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in design, manufacturing, distribution and trading of jewellery products, licensing or assignment of brandnames to third parties for design, manufacturing and/or distribution of jewellery and consumer products other than timepieces, and holding of investments.

(a) Primary report format - business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit which is subject to risks and returns that are different from those of other business segments.

3. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

(a) Primary report format - business segments *(Cont'd)*

The Group was organised on a worldwide basis into two main business segments:

- Jewellery - design, manufacturing, distribution and trading of jewellery products.
- Investments - investments in strategic investments and other trading and non-trading securities. Strategic investments include investments in a private closed-end fund and an unlisted company which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of the Group's business penetration in the region.

	Year ended 31st May, 2005		
	Jewellery products $'000	Investments $'000	Group $'000
Turnover	851,352	—	851,352
Segment results	94,406	3	94,409
Finance costs			(25,515)
Profit before taxation			68,894
Taxation			5,658
Profit after taxation			74,552
Minority interests			—
Profit attributable to shareholders			74,552
Segment assets	1,162,527	150,873	1,313,400
Interest in an associated company	(58)	—	(58)
Total assets	1,162,469	150,873	1,313,342
Segment liabilities	(653,377)	—	(653,377)
Total liabilities	(653,377)	—	(653,377)
Capital expenditure	12,724	—	12,724
Depreciation	8,540	—	8,540
Amortisation	2,132	—	2,132
Write-back of provision for bad debts	339	—	339
Bad debt expense	2,690	—	2,690
Write-back of provision for inventory	22,832	—	22,832

3. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

(a) Primary report format - business segments *(Cont'd)*

	Year ended 31st May, 2004		
	Jewellery products $'000	Investments $'000	Group $'000
Turnover	977,633	—	977,633
Segment results	85,924	3	85,927
Finance costs			(22,448)
Profit before taxation			63,479
Taxation			5,017
Profit after taxation			68,496
Minority interests			(1)
Profit attributable to shareholders			68,495
Segment assets	1,022,451	80,230	1,102,681
Interest in an associated company	(59)	—	(59)
Total assets	1,022,392	80,230	1,102,622
Segment liabilities	(590,984)	—	(590,984)
Total liabilities	(590,984)	—	(590,984)
Capital expenditure	93,115	—	93,115
Depreciation	10,225	—	10,225
Amortisation	9,289	—	9,289
Bad debt expense	2,217	—	2,217
Write-back of provision for inventory	5,435	—	5,435

3. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

(b) Secondary reporting format - geographical segments

The Group's operations are mainly located in Europe, Asia Pacific and America.

In determining the Group's geographical segments, turnover and results attributed to the segments are based on the destination of delivery of merchandise. Segment assets and capital expenditure are based on the geographical location of the assets.

	Year ended 31st May, 2005			At 31st May, 2005
	Turnover $'000	**Segment results $'000**	**Capital expenditure $'000**	**Total assets $'000**
Europe	**650,766**	**84,240**	**854**	**454,256**
America	**76,037**	**(6,686)**	**2,655**	**50,947**
Asia Pacific	**124,549**	**16,855**	**9,215**	**808,197**
	851,352	**94,409**	**12,724**	**1,313,400**
Interest in an associated company				**(58)**
				1,313,342

	Year ended 31st May, 2004			At 31st May, 2004
	Turnover $'000	Segment results $'000	Capital expenditure $'000	Total assets $'000
Europe	627,749	75,837	85,412	392,198
America	64,805	105	2,554	47,376
Asia Pacific	285,079	9,985	5,149	663,107
	977,633	85,927	93,115	1,102,681
Interest in an associated company				(59)
				1,102,622

4. OTHER REVENUES

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Interest income	**22,918**	12,847
Management fees	**5**	5
Redemption premium received on maturity of equity-linked notes	**8,512**	1,834
Gain on disposal of fixed assets	**—**	67
Gain on revaluation of fixed assets	**990**	—
Gain on revaluation of listed trading securities	**3**	3
Others	**11,112**	7,510
	43,540	22,266

5. OPERATING PROFIT

Operating profit was stated after crediting and charging the following:

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Crediting:		
Interest income from		
- bank deposits	**497**	301
- promissory notes	**19,027**	10,267
- equity-linked notes	**1,481**	452
- deposit with a fellow subsidiary	**1,030**	1,719
- others	**883**	108
Gain on disposal of fixed assets	**—**	67
Gain on revaluation of		
- fixed assets	**990**	—
- listed trading securities	**3**	3
Auditors' remuneration		
- prior year over-provision	**26**	—
Redemption premium received on maturity of equity-linked notes	**8,512**	1,834
Write-back of provision for bad debts	**339**	—
Write-back of provision for inventory	**22,832**	5,435

5. OPERATING PROFIT *(Cont'd)*

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Charging:		
Depreciation:		
- owned fixed assets	**8,489**	10,174
- leased fixed assets	**51**	51
Amortisation of intangible assets	**2,132**	9,289
Loss on disposal of fixed assets	**125**	—
Loss on disposal of intangible assets	**11**	—
Auditors' remuneration		
- current year	**1,458**	2,022
- prior year under-provision	**—**	962
Operating lease rentals		
- leasehold land and buildings	**7,736**	7,916
- furniture and equipment	**2,705**	4,058
Bad debt expense	**2,690**	2,217
Exchange loss, net *(a)*	**5,696**	378
Staff costs (including Directors' and senior executives' emoluments) *(Note 11)*	**148,922**	132,051

Note:

(a) The amount mainly represented the net exchange loss relating to foreign currency options and foreign currency transactions/translation loss.

During the year, the Group bought and sold certain foreign currency options from/to certain commercial banks. At 31st May, 2005, the Group's outstanding written foreign currency options with a notional principal value of EUR13,080,000 (2004: EUR6,800,000 and USD1,000,000) equivalent were marked to market in accordance with the Group's accounting policy on currency options (Note 2(r)), resulting in an unrealised exchange loss of approximately $1,196,000 (2004: a gain of $6,665,000).

The remaining debit amount of approximately $4,500,000 (2004: $7,043,000) was related to other foreign currency transactions/translation loss (2004: loss).

6. FINANCE COSTS

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Interest on bank borrowings wholly repayable within five years	**16,367**	13,746
Interest on convertible bonds	**140**	282
Interest on other loans	**51**	31
Interest element of finance leases	**5**	6
Interest on advance from a fellow subsidiary	**62**	—
Interest on advance from an associated company	**7**	8
Bank charges	**8,883**	8,375
	25,515	22,448

7. TAXATION

(a) The amount of taxation (credited)/charged to the consolidated profit and loss account represented:

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
The Company and its subsidiaries:		
Current taxation:		
Hong Kong profits tax		
- Provision for the year	**767**	3,839
- Over-provision in prior years	**(4,879)**	—
Overseas taxation		
- Provision for the year	**384**	1,614
- Under-provision in prior years	**1,534**	279
Deferred taxation *(Note 27(a))*:		
- Recognised during the year	**(3,464)**	(10,749)
Tax income for the year	**(5,658)**	(5,017)

7. TAXATION *(Cont'd)*

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year provided by subsidiaries with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries operated.

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the domestic profits tax rate of the Company as follows:

	2005 $'000	2004 $'000
Profit before taxation	**68,894**	63,479
Tax at the domestic profits tax rate of 17.5% (2004: 17.5%)	**12,056**	11,109
Tax effect of income not subject to taxation	**(20,059)**	(20,238)
Tax effect of expenses that are not deductible in determining taxable profit	**2,397**	2,516
Tax effect of tax loss not recognised	**5,454**	4,903
Tax effect of other temporary differences not recognised	**(33)**	2,268
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,128)**	(4,267)
(Over)/Under-provision in prior years	**(3,345)**	279
Others	**—**	(1,587)
Tax income for the year	**(5,658)**	(5,017)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately $45,024,000 (2004: $31,733,000).

9. DIVIDENDS

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Interim, paid, of 5.50 cents (2004: 5.50 cents) per ordinary share	**22,724**	17,300
Final, proposed, of 1.85 cents (2004: 4.00 cents) per ordinary share	**7,897**	13,272
	30,621	30,572

During the year, an interim dividend of approximately $22,724,000 (2004: $17,300,000) was declared and paid on 30th March, 2005.

At the annual general meeting to be held on 17th November, 2005, the Directors will recommend a final dividend of 1.85 cents per ordinary share. This proposed dividend is not reflected as dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ending 31st May, 2006, if approved by shareholders at the said meeting.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately $74,552,000 (2004: $68,495,000) and the weighted average number of ordinary shares of approximately 367,754,000 (2004: 311,372,000) in issue during the year.

(b) Diluted earnings per share

During the year ended 31st May, 2005, the Company's share options exercise price was above the average fair value of one ordinary share, thus there were no dilutive potential ordinary shares.

During the year ended 31st May, 2004, diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately $68,727,000 and the weighted average number of ordinary shares of approximately 321,390,000 that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the year.

10. EARNINGS PER SHARE *(Cont'd)*

(c) Reconciliation

A reconciliation of profit attributable to shareholders used in calculating the basic and diluted earnings per share was as follows:

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Profit attributable to shareholders used in calculating basic earnings per share	**74,552**	68,495
Interest savings in respect of convertible bonds	**—**	232
Profit attributable to shareholders used in calculating diluted earnings per share	**74,552**	68,727

A reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share was as follows:

	Year ended 31st May, 2005	Year ended 31st May, 2004
Weighted average number of ordinary shares used in calculating basic earnings per share	**367,754,000**	311,372,000
Dilutive potential effect in respect of convertible bonds	**—**	10,018,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	**367,754,000**	321,390,000

11. STAFF COSTS (INCLUDING DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS)

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Wages and salaries	**148,458**	131,539
Staff retirement scheme contributions *(Note 31)*	**562**	538
Less: Refund of forfeited contributions *(Note 31)*	**(98)**	(26)
	148,922	132,051

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

(i) Details of Directors' emoluments were set out below:

	Group	
	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Fees for Executive Directors	**—**	15
Fees for Non-executive Directors	**—**	—
Other emoluments for Executive Directors		
- Basic salaries, housing allowances, other allowances and benefits in kind	**1,634**	1,528
- Contributions to pension schemes for Directors	**48**	48
- Bonuses *	**—**	—
Other emoluments for Non-executive Directors	**531**	550
	2,213	2,141

Note:

* The Directors were entitled to a discretionary bonus.

(ii) Analysis of Directors' emoluments by number of Directors and emolument ranges was as follows:

	Group	
	Year ended 31st May, 2005	Year ended 31st May, 2004
Executive Directors		
- Nil - $1,000,000	**7**	7
Non-executive Directors		
- Nil - $1,000,000	**3**	4

(iii) During the year, no Directors waived any emoluments and no payments as inducement to join or upon joining the Group or as compensation for loss of office was paid or payable to any Director.

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Cont'd)*

(b) Five highest-paid individuals

(i) During the year, the five highest-paid individuals did not include any Director (2004: five). The emoluments of the five (2004: five) highest-paid individuals were analysed as below:

	Group	
	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Basic salaries, housing allowances, other allowances and benefits in kind	**5,498**	4,179
Contributions to pension schemes	**70**	89
Bonuses	**—**	469
	5,568	4,737

(ii) Analysis of emoluments paid to the aforementioned five (2004: five) highest-paid individuals by number of individuals and emolument ranges was as follows:

	Group	
	Year ended 31st May, 2005	Year ended 31st May, 2004
- Nil - $1,000,000	**3**	2
- $1,000,001 - $1,500,000	**1**	3
- $1,500,001 - $2,000,000	**1**	—
	5	5

(iii) During the year, no emoluments of the five highest-paid individuals were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

13. FIXED ASSETS

Group

	Freehold land and buildings $'000	Leasehold land and buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture and fixtures $'000	Motor vehicles $'000	Total $'000
Cost or valuation							
At 1st June, 2004	2,167	6,300	16,698	41,248	34,173	2,997	103,583
Exchange adjustments	—	—	—	—	195	31	226
Revaluation	—	700	—	—	—	—	700
Additions	—	—	2,899	5,042	4,533	185	12,659
Disposals	—	—	(361)	—	(1,081)	(218)	(1,660)
At 31st May, 2005	2,167	7,000	19,236	46,290	37,820	2,995	115,508
Accumulated depreciation							
At 1st June, 2004	288	143	12,034	34,360	15,982	1,720	64,527
Exchange adjustments	—	—	—	—	68	6	74
Revaluation	—	(290)	—	—	—	—	(290)
Charge for the year	61	147	1,303	1,861	4,396	772	8,540
Disposals	—	—	(323)	—	(976)	(85)	(1,384)
At 31st May, 2005	349	—	13,014	36,221	19,470	2,413	71,467
Net book value							
At 31st May, 2005	1,818	7,000	6,222	10,069	18,350	582	44,041
At 31st May, 2004	1,879	6,157	4,664	6,888	18,191	1,277	39,056

(a) All fixed assets were stated at cost less accumulated depreciation, except for leasehold land and buildings which were stated at valuation less accumulated depreciation.

The leasehold land and buildings situated in Hong Kong were revalued on 31st May, 2005 by LCH (Asia-Pacific) Surveyors Limited, independent professional valuers, on an open market value basis. Had those leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the leasehold land and buildings at 31st May, 2005 would have been approximately $7,529,000 (2004: $7,733,000).

13. FIXED ASSETS *(Cont'd)*

(b) The net book values of land and buildings were analysed as follows:

	2005 $'000	2004 $'000
Held in Hong Kong		
- under leases between 10 to 50 years	**7,000**	6,157
Held outside Hong Kong		
- freehold	**1,818**	1,879
	8,818	8,036

(c) At 31st May, 2005, no asset was held under finance leases. At 31st May, 2004, the net book value of motor vehicles held under finance leases amounted to approximately $149,000.

14. INTANGIBLE ASSETS

Group

	Know-how $'000	Licences and trademarks $'000	Development costs $'000	Goodwill $'000	Total $'000
Cost					
At 1st June, 2004	23,094	17,521	492	97,528	138,635
Exchange adjustments	133	31	—	1,661	1,825
Additions	—	65	—	—	65
Transfer from accumulated amortisation upon adoption of HKFRS 3	—	—	—	(11,013)	(11,013)
Disposals	—	—	(11)	—	(11)
At 31st May, 2005	23,227	17,617	481	88,176	129,501
Accumulated amortisation					
At 1st June, 2004	7,906	4,368	126	10,625	23,025
Exchange adjustments	(3)	7	—	388	392
Charge for the year	1,527	511	94	—	2,132
Transfer to cost upon adoption of HKFRS 3	—	—	—	(11,013)	(11,013)
At 31st May, 2005	9,430	4,886	220	—	14,536
Net book value					
At 31st May, 2005	13,797	12,731	261	88,176	114,965
At 31st May, 2004	15,188	13,153	366	86,903	115,610

15. INTERESTS IN SUBSIDIARIES

In the Company's balance sheet, interests in subsidiaries comprised:

	Company	
	2005	2004
	$'000	$'000
Unlisted shares, at cost	**120,910**	120,910
Loan to a subsidiary *(a)*	**14,400**	14,400
	135,310	135,310
Less: Accumulated impairment losses	**(21,648)**	(21,648)
	113,662	113,662

Notes:

(a) Loan to a subsidiary of $14,400,000 (2004: $14,400,000) was unsecured, non-interest bearing and not repayable within one year.

(b) All of the amounts due from subsidiaries were unsecured and repayable on demand. Except for the amounts due from subsidiaries of approximately $8,940,000 (2004: $8,739,000) which were non-interest bearing, the remaining balances due from subsidiaries bore interest at prevailing commercial rates.

(c) The amount due to a subsidiary was unsecured, non-interest bearing and repayable on demand.

(d) At 31st May, 2005, the Company provided corporate guarantees of approximately $977,359,000 (2004: $643,090,000) to secure banking and other loan facilities of certain subsidiaries.

(e) The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the Company's carrying value at 31st May, 2005.

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INTERESTS IN SUBSIDIARIES *(Cont'd)*

Details of the principal subsidiaries at 31st May, 2005 were as follows:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of nominal value of issued capital held by the Company: Directly	Indirectly	Principal activities
			%	%	
Abel & Zimmermann GmbH & Co KG #	Germany	EUR511,292	—	85	Manufacturing and distribution of jewellery
Calibre Jewellery (Shenzhen) Co. Ltd. # *	The People's Republic of China ("PRC")	US$600,000	—	100	Manufacturing of jewellery
EganaGoldpfeil Benelux Jewel B.V. #	The Netherlands	EUR18,000	—	100	Distribution of jewellery
Egana Investments (Pacific) Limited	Cook Islands	US$1	100	—	Investment holding and licensing operations
Egana Jewelry & Pearls (America) Corp. #	The United States of America	US$881,000	100	—	Design and distribution of jewellery
Egana Juwelen & Perlen Handels GmbH #	Austria	EUR36,336	—	100	Distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US$1	—	100	Marketing and promotion
Egana Schmuck und Perlen GmbH #	Germany	EUR25,565	100	—	Design and distribution of jewellery
Everstone Limited	Hong Kong/ the PRC	$100	—	100	Manufacturing of jewellery
Guthmann + Wittenauer Schmuck GmbH #	Germany	EUR1,500,000	—	100	Manufacturing and distribution of jewellery
Jacquelin Designs Enterprises, Inc. #	The United States of America	—	100	—	Design and distribution of jewellery
Keimothai Limited #	Thailand	Baht81,000,000	—	100	Sourcing, manufacturing and distribution of jewellery
Oro Design Limited	Hong Kong	$10,000	100	—	Design, manufacturing and distribution of jewellery
Rebner GmbH #	Germany	EUR25,564	—	85	Investment holding
Time Success Industrial Limited	Hong Kong	$2	100	—	Property holding
Panorama Company Limited	Hong Kong	$2	100	—	Inactive

Notes:

\# Audited by certified public accountants other than Baker Tilly Hong Kong Limited

* Wholly foreign-owned enterprise incorporated in the PRC.

16. INTEREST IN AN ASSOCIATED COMPANY

Interest in an associated company comprised:

	Group	
	2005	2004
	$'000	$'000
Share of net assets	**32**	32
Due to an associated company *(Note 35(d))*	**(90)**	(91)
	(58)	(59)

The amount due to the associated company was unsecured, interest-bearing at prevailing commercial rates and was not repayable within one year.

Details of the Group's associated company at 31st May, 2005 were as follows:

Name	Place of incorporation/ operation	Principal activity	Particulars of issued shares held	Percentage of interests held Directly	Percentage of interests held Indirectly
				%	%
Rossolini Limited	Thailand	Inactive	Ordinary shares of Baht1,000 each	—	30

17. INVESTMENTS IN NON-TRADING SECURITIES

Investments in non-trading securities comprised:

	Group	
	2005	2004
	$'000	$'000
Equity securities:		
Listed, at fair value		
- in Hong Kong	**75,417**	3,687
Unlisted, at fair value		
- a private closed-end fund *(a)*	**38,290**	39,381
- an unlisted company *(b)*	**37,053**	37,053
	75,343	76,434
	150,760	80,121

Notes:

(a) At 31st May, 2005, the Group had a strategic investment of approximately $38,000,000 (2004: $39,000,000) in one private closed-end fund. The fund was under the management of a third party Hong Kong listed investment banking group ("LISTED CO"). At 31st May, 2005, the fund was stated at fair value which was determined by the Directors and a revaluation deficit of approximately $1,085,000 (2004: a surplus of $6,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying value of the fund.

(b) At 31st May, 2005, the investment in the unlisted company was stated at fair value which was determined by the Directors and a revaluation surplus of approximately $17,553,000 (2004: $17,553,000) was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying value of the unlisted company.

18. INVENTORIES

	Group	
	2005	2004
	$'000	$'000
Raw materials	**64,551**	57,352
Work-in-progress	**39,335**	31,817
Finished goods	**165,948**	141,975
	269,834	231,144
Less: Provision for inventory	**(341)**	(23,276)
	269,493	207,868

At 31st May, 2004 and 2005, no inventories were carried at net realisable value.

At 31st May, 2005, inventories of approximately $59,687,000 (2004: $48,782,000) were pledged as security for banking facilities granted to the Group.

19. ACCOUNTS RECEIVABLE, NET

In general, the Group grants an average credit period of 30-120 days to its trade customers. An aging analysis of accounts receivable after provision for bad and doubtful debts was as follows:

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Due				
In current month	**58,995**	265,985	**—**	—
Between one to two months	**6,198**	6,880	**—**	—
Between two to three months	**1,589**	2,072	**—**	—
Between three to four months	**1,828**	7,807	**—**	—
Over four months	**16,757**	3,317	**—**	—
	85,367	286,061	**—**	—

20. ROYALTY DEPOSIT - GROUP

Royalty deposit represented a deposit paid to a subsidiary of EganaGoldpfeil in connection with a seven years' guaranteed minimum royalty under the "Goldpfeil" licence which bore interest at commercial rates.

21. SHORT-TERM INVESTMENTS

	Group	
	2005	2004
	$'000	$'000
Equity-linked notes *(a)*	**—**	38,340
Trading securities listed outside Hong Kong	**113**	109
	113	38,449

Note:

(a) At 31st May, 2004, the Group had investments in certain equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer"), in which the controlling shareholder of the LISTED CO as mentioned in Note 17(a) has a beneficial interest.

At 31st May, 2005, all of the ELNs have been redeemed by the Note Issuer on maturity.

22. PROMISSORY NOTES

Promissory notes represented short-term deposits with independent third party companies with maturity within three months, which were unsecured and bore interest at prevailing commercial rates. At 31st May, 2005, all the promissory notes were due for repayment in the period from June to August 2005 of which approximately $242,014,000 was rolled over upon maturity for another one to three months.

23. ACCOUNTS PAYABLE, ACCRUALS AND OTHER PAYABLES

At 31st May, 2005, accounts payable, accruals and other payables were analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Accounts payable	**69,614**	65,566	**—**	—
Accrued charges and other payables	**58,646**	56,024	**1,464**	1,374
	128,260	121,590	**1,464**	1,374

An aging analysis of accounts payable was as follows:

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Due				
In current month	**51,750**	52,342	**—**	—
Between one to two months	**4,513**	7,170	**—**	—
Between two to three months	**4,675**	1,633	**—**	—
Between three to four months	**3,578**	2,466	**—**	—
Over four months	**5,098**	1,955	**—**	—
	69,614	65,566	**—**	—

24. SHORT-TERM BANK BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Bank loans and overdrafts	**168,772**	108,235	**—**	—
Trust receipts and import loans	**60,271**	28,134	**—**	—
	229,043	136,369	**—**	—

25. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Long-term bank borrowings *(a)*	**211,567**	131,944	**120,000**	120,000
Notes payable *(b)*	**3,977**	4,072	**—**	—
Other long-term loans *(c)*	**1,528**	15,857	**—**	—
Obligations under finance leases *(d)*	**—**	54	**—**	—
	217,072	151,927	**120,000**	120,000
Less: Current portion of long-term liabilities	**(55,468)**	(25,368)	**(12,000)**	—
	161,604	126,559	**108,000**	120,000

Notes:

(a) Long-term bank borrowings:

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Repayable within a period of				
- within one year				
- secured	**—**	20,029	**—**	—
- unsecured	**54,776**	4,825	**12,000**	—
- in the second year				
- secured	**—**	13,094	**—**	—
- unsecured	**116,791**	16,578	**108,000**	12,000
- in the third to fifth year				
- secured	**—**	—	**—**	—
- unsecured	**40,000**	77,418	**—**	108,000
	211,567	131,944	**120,000**	120,000
Less: Amounts repayable within one year included under current liabilities	**(54,776)**	(24,854)	**(12,000)**	—
	156,791	107,090	**108,000**	120,000

On 5th March, 2004, the Company entered into a syndicated loan agreement (the "Loan Agreement") with banks for a three-year transferable loan facility amounting to $120 million. The syndicated loan carries interest at commercial lending rates and is guaranteed by certain subsidiaries of the Company. The syndicated loan will be repaid by three semi-annual instalments and the first instalment will be payable in March 2006.

Pursuant to the Loan Agreement, the Company is required to comply with certain financial and general covenants. As of the date of the approval of accounts, the Directors believe that the Company has complied in all material respects with all the financial and general covenants as required by the Loan Agreement.

25. LONG-TERM LIABILITIES *(Cont'd)*

Notes: (Cont'd)

(b) Notes payable:

	Group	
	2005	2004
	$'000	$'000
Repayable within a period of		
- within one year	**94**	94
- in the second year	**94**	93
- in the third to fifth year	**280**	281
- after the fifth year	**3,509**	3,604
	3,977	4,072
Less: Amounts repayable within one year included under current liabilities	**(94)**	(94)
	3,883	3,978

At 31st May, 2005, notes payable not wholly repayable within five years amounted to approximately $3,977,000 (2004: $4,072,000). These balances were unsecured, non-interest bearing and repayable by instalments.

(c) Other long-term loans:

	Group	
	2005	2004
	$'000	$'000
Repayable within a period of		
- within one year	**598**	366
- in the second year	**194**	191
- in the third to fifth year	**664**	635
- after the fifth year	**72**	14,665
	1,528	15,857
Less: Amounts repayable within one year included under current liabilities	**(598)**	(366)
	930	15,491

At 31st May, 2005, other long-term loans not wholly repayable within five years amounted to approximately $1,165,000 (2004: $15,673,000). Except for an amount of approximately $1,165,000 (2004: $1,333,000) which was interest-bearing at commercial lending rates, all other balances were unsecured, non-interest bearing and repayable by instalments.

25. LONG-TERM LIABILITIES *(Cont'd)*

Notes: (Cont'd)

(d) At 31st May, 2005, the Group's finance lease liabilities were repayable as follows:

	Group	
	2005	2004
	$'000	$'000
Within one year	—	60
Less: Future finance charges of finance leases	—	(6)
Present value of finance lease liabilities	—	54
The present value of finance lease liabilities was as follows:		
Within one year	—	54
Present value of finance lease liabilities	—	54
Less: Amounts repayable within one year included under current liabilities	—	(54)
	—	—

26. CONVERTIBLE BONDS

	Group and Company	
	2005	2004
	$'000	$'000
Beginning of year	**66,300**	—
Issued during the year *(a)*	**39,000**	78,000
Converted to ordinary shares *(b)*	**(105,300)**	(11,700)
End of year	**—**	66,300

(a) On 10th February, 2004, the Company entered into a subscription agreement (as amended by a letter agreement dated 26th February, 2004) (the "Subscription Agreement") with Merrill Lynch International ("Merrill Lynch") whereby the Company agreed to issue convertible bonds up to a maximum of US$45 million (equivalent to approximately $351 million) to Merrill Lynch, these bonds bear interest at 1.5% per annum and will mature on 31st March, 2009 (the "Maturity Date"). The details of the terms and conditions of the convertible bonds were disclosed in the Company's Announcement dated 10th February 2004.

On 26th February, 2004, the Company issued convertible bonds (the "Tranche 1 Bonds") of US$10 million (equivalent to approximately $78 million) to Merrill Lynch. Tranche 1 Bonds amounting to US$1.5 million (equivalent to $11.7 million) were converted into ordinary shares in prior year, with the remaining balance of US$8.5 million (equivalent to $66.3 million) converted into ordinary shares in the current year.

On 4th February, 2005, the Company issued convertible bonds (the "Tranche 3a Bonds") of US$5 million (equivalent to approximately $39 million) to Merrill Lynch. During the year, Merrill Lynch has fully converted the Tranche 3a Bonds into ordinary shares.

In accordance with the terms and conditions of the subscription letter dated 10th February, 2004, the Company has granted Merrill Lynch subscription rights to subscribe for approximately 5.5 million ordinary shares and 3.5 million ordinary shares in respect of the Tranche 1 Bonds and Tranche 3a Bonds respectively.

As at 31st May, 2005, options exercisable by either the Company or Merrill Lynch to issue Tranche 1a Bonds, Tranche 2a and 2b Bonds and Tranche 3b Bonds under the Subscription Agreement have not been exercised and expired in accordance with the terms of the Subscription Agreement.

(b) During the year, convertible bonds (Tranche 1 Bonds and Tranche 3a Bonds) amounting to US$13.5 million (equivalent to approximately $105.3 million) were converted into ordinary shares as mentioned in Note 28.

27. DEFERRED TAX ASSETS/(LIABILITIES)

(a) The movements on deferred tax assets/(liabilities) were as follows:

	Group	
	2005	2004
	$'000	$'000
Beginning of year	**8,357**	(2,392)
Exchange adjustments	**(155)**	—
Recognised during the year	**3,464**	10,749
Transfer from taxation payable	**3,105**	—
End of year	**14,771**	8,357
Provided for in respect of:		
Accelerated depreciation allowances	**(1,874)**	(1,061)
Unrealised profit in inventories of subsidiaries	**6,779**	9,410
Deferred expense/(income)	**434**	(228)
Tax losses carried forward	**9,432**	236
	14,771	8,357

	Company	
	2005	2004
	$'000	$'000
Beginning of year	**(20)**	—
Recognised during the year	**70**	(20)
End of year	**50**	(20)
Provided for in respect of:		
Deferred expense/(income)	**50**	(20)
	50	(20)

No deferred taxation was provided for non-trading securities revaluation surplus as such surplus would not constitute a temporary difference for taxation purpose and the realisation of the reserves therefrom would not be subject to taxation.

27. DEFERRED TAX ASSETS/(LIABILITIES) *(Cont'd)*

(b) Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2004: 17.5%). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same fiscal authority. The following amounts are shown in the balance sheet:

	Group		Company	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Deferred tax liabilities	**(1,874)**	(1,289)	**—**	(20)
Deferred tax assets	**16,645**	9,646	**50**	—
	14,771	8,357	**50**	(20)

(c) At 31st May, 2005, the Group has unused tax losses of approximately $85,776,000 (2004: $50,704,000) available for offset against future profits. Deferred tax asset has been recognised in respect of approximately $23,175,000 (2004: $1,351,000) of such losses. No deferred tax asset has been recognised in respect of the remaining $62,601,000 (2004: $49,353,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire through 5 years to indefinitely.

28. SHARE CAPITAL

Share capital comprised:

	Group and Company			
	2005	2004	**2005**	2004
	Number of ordinary shares		**$'000**	$'000
Authorised:				
Beginning and end of year	**500,000,000**	500,000,000	**250,000**	250,000
Issued and fully paid:				
Beginning of year	**317,470,029**	310,205,869	**158,735**	155,103
Issued upon exercise of convertible bonds	**95,694,423**	7,264,160	**47,847**	3,632
End of year	**413,164,452**	317,470,029	**206,582**	158,735

28. SHARE CAPITAL *(Cont'd)*

At 31st May, 2005, the Company had issued a total of 95,694,423 (2004: 7,264,160) new ordinary shares of $0.5 each in the Company upon the conversion of $105,300,000 (2004: $11,700,000) convertible bonds as set out in Note 26. Share premium of approximately $57,453,000 (2004: $8,068,000) arose from the issuance of new ordinary shares.

Share options

At the Extraordinary General Meeting of the Company held on 26th June, 1998, the Executive Share Option Scheme was approved and adopted. Share options are granted to eligible full-time employees including the Executive Directors of the Company and its subsidiaries. A nominal consideration at $1 would be paid by the employees for each lot of share options granted. Share options are subjected to a maximum of 10% of the issued share capital of the Company from time to time.

Details of outstanding share options:

		At 31st May, 2005			At 31st May, 2004		
Date granted	**Expiry date**	**Exercise price $**	**No. of options '000**	**No. of options vested '000**	Exercise price $	No. of options '000	No. of options vested '000
Directors							
09/01/2000	23/07/2008	**2.24**	**3,550**	**—**	2.24	3,550	—
12/01/2000	23/07/2008	**2.24**	**—**	**—**	2.24	250	—
17/01/2000	23/07/2008	**2.24**	**250**	**—**	2.24	250	—
			3,800	**—**		4,050	—
Employees under continuous contracts (excluding Directors)							
07/01/2000 to 31/01/2000	23/07/2008	**2.24**	**9,075**	**—**	2.24	9,075	—
			9,075	**—**		9,075	—
			12,875	**—**		13,125	—

No share options were granted (2004: Nil), exercised (2004: Nil) or cancelled (2004: Nil) during the year.

250,000 share options were lapsed (2004: Nil) during the year.

29. RESERVES

Group

Movements of reserves for the Group for the year ended 31st May, 2005 were as follows:

	Share premium $'000	Exchange translation reserve $'000	Retained profits $'000	Goodwill $'000	Revaluation reserve $'000	Other reserve $'000	Total $'000
Beginning of year	39,295	12,354	214,883	68,814	17,447	69	352,862
Effect of adopting HKFRS 3 (Note 2(e)(i))	—	—	81,963	(81,963)	—	—	—
Beginning of year, as restated	39,295	12,354	296,846	(13,149)	17,447	69	352,862
Share premium arising from conversion of convertible bonds (Note 28)	57,453	—	—	—	—	—	57,453
Expenses incurred in connection with conversion of convertible bonds	(24)	—	—	—	—	—	(24)
Exchange differences arising on translation of overseas subsidiaries' accounts	—	1,484	—	—	—	—	1,484
Surplus on revaluation of non-trading securities	—	—	—	—	4,978	—	4,978
Profit for the year	—	—	74,552	—	—	—	74,552
2004 final dividend paid	—	—	(15,239)	—	—	—	(15,239)
Interim dividend paid	—	—	(22,724)	—	—	—	(22,724)
End of year	96,724	13,838	333,435	(13,149)	22,425	69	453,342
Representing:							
2005 Final dividend proposed			7,897				
Others			325,538				
Retained profits at end of year			333,435				

29. RESERVES *(Cont'd)*

Group *(Cont'd)*

Movements of reserves for the Group for the year ended 31st May, 2004 were as follows:

	Share premium $'000	Exchange translation reserve $'000	Retained profits $'000	Goodwill $'000	Revaluation reserve $'000	Other reserve $'000	Total $'000
Beginning of year	31,227	7,731	176,096	68,814	17,559	69	301,496
Share premium arising from conversion of convertible bonds (Note 28)	8,068	—	—	—	—	—	8,068
Exchange differences arising on translation of overseas subsidiaries' accounts	—	4,623	—	—	—	—	4,623
Deficit on revaluation of non-trading securities	—	—	—	—	(112)	—	(112)
Profit for the year	—	—	68,495	—	—	—	68,495
2003 final dividend paid	—	—	(12,408)	—	—	—	(12,408)
Interim dividend paid	—	—	(17,300)	—	—	—	(17,300)
End of year	39,295	12,354	214,883	68,814	17,447	69	352,862
Representing:							
2004 Final dividend proposed			13,272				
Others			201,611				
Retained profits at end of year			214,883				

At 31st May, 2004 and 2005, all the reserves of the Group were attributable to the Company and its subsidiaries.

29. RESERVES *(Cont'd)*

Company

Movements of reserves for the Company for the year ended 31st May, 2005 were as follows:

	Share premium $'000	Retained profits $'000	Total $'000
Beginning of year	**39,295**	**16,448**	**55,743**
Share premium arising from conversion of convertible bonds	**57,453**	**—**	**57,453**
Expenses incurred in connection with conversion of convertible bonds	**(24)**	**—**	**(24)**
Profit for the year	**—**	**45,024**	**45,024**
2004 final dividend paid	**—**	**(15,239)**	**(15,239)**
Interim dividend paid	**—**	**(22,724)**	**(22,724)**
End of year	**96,724**	**23,509**	**120,233**
Representing:			
2005 Final dividend proposed		**7,897**	
Others		**15,612**	
Retained profits at end of year		**23,509**	

Movements of reserves for the Company for the year ended 31st May, 2004 were as follows:

	Share premium $'000	Retained profits $'000	Total $'000
Beginning of year	31,227	14,423	45,650
Share premium arising from conversion of convertible bonds	8,068	—	8,068
Profit for the year	—	31,733	31,733
2003 final dividend paid	—	(12,408)	(12,408)
Interim dividend paid	—	(17,300)	(17,300)
End of year	39,295	16,448	55,743
Representing:			
2004 Final dividend proposed		13,272	
Others		3,176	
Retained profits at end of year		16,448	

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net cash inflow/(outflow) generated from operations:

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Profit before taxation	**68,894**	63,479
Depreciation	**8,540**	10,225
Amortisation of intangible assets	**2,132**	9,289
Loss/(Gain) on disposal of fixed assets	**125**	(67)
Gain on revaluation of fixed assets	**(990)**	—
Loss on disposal of intangible assets	**11**	—
Gain on revaluation of listed trading securities	**(3)**	(3)
Redemption premium received on maturity of equity-linked notes	**(8,512)**	(1,834)
Interest income	**(22,918)**	(12,847)
Interest expense	**16,632**	14,073
Operating profit before working capital changes	**63,911**	82,315
Increase in inventories	**(59,391)**	(1,737)
Increase in due from fellow subsidiaries	**(18,914)**	(12,269)
Decrease/(Increase) in due from a related company	**598**	(766)
Decrease/(Increase) in accounts receivable	**200,939**	(155,190)
(Increase)/Decrease in deposits, prepayments and other receivables	**(65,855)**	47,257
Increase/(Decrease) in accounts payable, accruals and other payables	**5,569**	(10,165)
Increase in bills payable	**5,405**	22,084
Decrease in due to an associated company	**(1)**	(37)
(Decrease)/Increase in due to fellow subsidiaries	**(34,849)**	23,174
Increase in due to a related company	**697**	1,242
Increase in due to Directors	**85**	120
Effect of foreign exchange rate changes	**561**	(2,815)
Net cash inflow/(outflow) generated from operations	**98,755**	(6,787)

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(b) Analysis of changes in financing during the year:

	Year ended 31st May, 2005										2004
	Share capital (including share premium) $'000	Other reserve $'000	Dividend payable $'000	Long-term bank borrowings $'000	Short-term bank borrowings $'000	Finance lease obligations $'000	Notes payable and other long-term loans $'000	Convertible bonds $'000	Minority interests $'000	Total $'000	Total $'000
Beginning of year	198,030	69	—	131,944	136,369	54	19,929	66,300	41	552,736	381,704
Net cash (outflow)/ inflow from financing	(24)	—	(37,963)	78,047	92,768	(54)	(14,971)	39,000	—	156,803	137,028
Conversion of convertible bonds	105,300	—	—	—	—	—	—	(105,300)	—	—	—
Share of profit by minority shareholders	—	—	—	—	—	—	—	—	—	—	1
Share of exchange translation reserve by minority shareholders	—	—	—	—	—	—	—	—	—	—	12
Prior year final dividend paid	—	—	15,239	—	—	—	—	—	—	15,239	12,408
Interim dividend paid	—	—	22,724	—	—	—	—	—	—	22,724	17,300
Exchange adjustments	—	—	—	1,576	(94)	—	547	—	—	2,029	4,283
End of year	303,306	69	—	211,567	229,043	—	5,505	—	41	749,531	552,736

(c) Acquisition of business:

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Net liabilities acquired:		
Inventories	—	5,844
Deposits, prepayment and other receivables	—	1,323
Accounts payable, accruals and other payables	—	(12,514)
	—	(5,347)
Goodwill	—	84,142
Consideration	—	78,795
Satisfied by:		
Set off against accounts receivable	—	78,795

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(d) Analysis of cash and cash equivalents:

	2005 **$'000**	2004 $'000
Promissory notes *(Note 22)*	**357,329**	164,568
Cash and bank balances	**60,820**	35,267
	418,149	199,835

31. PENSION SCHEME

The Group has participated in the defined Mandatory Provident Fund Scheme in Hong Kong since 1st December, 2000 and made monthly contributions to the scheme based on 5% - 7% of the employees' basic salaries. The contributions were subject to a maximum of $1,000 per month per employee and thereafter contributions are voluntary. During the year, the Group's employer's contribution for pension scheme was approximately $562,000 (2004: $538,000). The assets of the fund were held separately from those of the Group and were managed by independent professional fund managers.

Forfeited contributions totalling $98,000 (2004: $26,000) were utilised during the year.

32. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the accounts were summarised below:

	Group		**Company**	
	2005 **$'000**	2004 $'000	**2005** **$'000**	2004 $'000
Discounted bills with recourse	**40,506**	423	**—**	—
Corporate guarantees provided to financial institutions in respect of facilities granted to subsidiaries *(Note 15d)*	**—**	—	**931,280**	597,226
Corporate guarantees provided to other institutions in respect of facilities granted to subsidiaries *(Note 15d)*	**—**	—	**46,079**	45,864

In addition, the Company guaranteed the payment and performance by a subsidiary under a license agreement pursuant to which the subsidiary was a licensee.

33. BANKING FACILITIES

At 31st May, 2005, the Group's banking facilities for overdrafts, loans and trade finance were secured by unconditional and continuing corporate guarantees provided by the Company and certain subsidiaries and cross guarantees among its subsidiaries.

34. COMMITMENTS

(a) At 31st May, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2005		2004	
	Leasehold land and buildings $'000	**Furniture and equipment $'000**	Leasehold land and buildings $'000	Furniture and equipment $'000
Payable:				
- Not later than one year	**6,482**	**2,444**	2,980	1,209
- Later than one year and not later than five years	**22,880**	**1,192**	7,948	478
- Later than five years	**20,919**	**—**	4,615	—
	50,281	**3,636**	15,543	1,687

(b) At 31st May, 2005, the Group had future aggregate minimum payments under license agreements as follows:

	2005 $'000	2004 $'000
Payable:		
- Not later than one year	**27,420**	29,194
- Later than one year and not later than five years	**94,818**	94,933
- Later than five years	**182,744**	206,569
	304,982	330,696

34. COMMITMENTS *(Cont'd)*

(c) (i) Off-balance sheet financial instruments

During the year, the Group entered into forward exchange and precious metals contracts in order to hedge against firmly committed commercial transactions. The contracts were arranged with commercial banks and other institutions. In addition, the Group has also bought and sold some currency options. The Group had, at 31st May, 2005, outstanding forward foreign exchange contracts to sell Euro Dollar with a notional principal value of approximately EUR435,000 (2004: EUR340,000) equivalent, outstanding forward precious metals contracts to purchase gold and silver with a notional principal value of approximately US$4,979,000 (2004: US$4,324,000) equivalent, and written currency options to sell Euro Dollar, purchase Euro and US Dollar with notional principal values of EUR11,280,000, EUR1,800,000 and Nil (2004: EUR6,800,000, Nil and US$1,000,000) equivalent respectively. Such outstanding contracts were scheduled to settle or expire, through April 2006.

(ii) At 31st May, 2005, the Group had outstanding interest rate swap contracts with a notional amount of approximately $120 million (2004: Nil). Such outstanding contracts were scheduled to settle or expire, through August 2007.

Save as disclosed above, neither the Group nor the Company had any significant commitments at 31st May, 2005.

35. RELATED PARTY AND CONNECTED TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Particulars of significant transactions between the Group and related companies during the year were summarised below:

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Sales of goods/services (5) ("Trading transactions")		
Comtesse Accessoires GmbH (formerly known as Comtesse Accessoires GmbH & Co.)(1)	**28**	9
Bartelli Leather Products Limited (1)	**67**	—
Haru Japan Corporation, Inc. (1)	**2**	—
Eco-Haru (Far East) Limited (1)	**1,778**	174
Egana-Haru Mfr. Corp. Limited (1)	**111**	676
Egana India Private Limited (1)	**129**	—
EganaGoldpfeil Benelux Time B.V. (1)	**—**	8,864
EganaGoldpfeil	**—**	5
EganaGoldpfeil (Switzerland) Limited (1)	**5,434**	4,319
EganaGoldpfeil Italia s.r.l. (1)	**36**	43
Goldpfeil Guam, Inc. (1)	**—**	1
Junghans Uhren GmbH (1)	**23**	—
Goldpfeil GmbH (1)	**30**	—
Egana of Switzerland (Far East) Limited (1)	**9**	—
Zeitmesstechnik GmbH (1)	**19**	39
Purchases of goods (6) ("Trading transactions")		
Egana of Switzerland (Far East) Limited (1)	**5**	39
EganaGoldpfeil Benelux Time B.V. (1)	**—**	878
EganaGoldpfeil (Switzerland) Limited (1)	**103**	—
Egana-Haru Mfr. Corp. Limited (1)	**1,443**	1,742
European Technology & Logistic Center GmbH (1)	**13**	9
Bartelli Leather Products Limited (1)	**62**	178
Zeitmesstechnik GmbH (1)	**2,982**	2,700
EganaGoldpfeil Italia s.r.l. (1)	**28**	—

35. RELATED PARTY AND CONNECTED TRANSACTIONS *(Cont'd)*

(a) Particulars of significant transactions between the Group and related companies during the year were summarised below: *(Cont'd)*

	Year ended 31st May, 2005 $'000	Year ended 31st May, 2004 $'000
Interest income		
Centreline Group Limited (1)	**1,030**	1,719
Allocation of operating costs (7)		
Egana Deutschland GmbH (1)	**75,636**	108,559
EganaGoldpfeil Europe (Holdings) GmbH (1)	**2,602**	—
European Technology & Logistic Center GmbH (1)	**21,705**	—
Sub-tenancy agreement (7)		
Egana Deutschland GmbH (1)	**—**	2,720
Consultancy fee expenses		
International Taxation Advisory Services Limited (3)	**568**	1,449
Interest expenses		
European Technology & Logistic Center GmbH (1)	**62**	—
Rossolini Limited (4)	**7**	8
Rental expenses (7)		
Eco-Haru Property Investments Limited (1)	**38**	38
EganaGoldpfeil Benelux Time B.V. (1)	**—**	220
EganaGoldpfeil Europe (Holdings) GmbH (1)	**1,214**	—
Management fee expenses		
EganaGoldpfeil	**6,952**	6,705
Egana-Haru Mfr. Corp. Limited (1)	**3,672**	3,529
Royalty fee expenses (8)		
P.C. International Marketing Limited (1)	**9,005**	8,659
Goldpfeil GmbH (1)	**1,520**	1,422
Egana Deutschland GmbH (1)	**269**	199
Bartelli Leather Products Limited (1)	**6,433**	6,503
JOOP! GmbH (2)	**5,381**	6,100

35. RELATED PARTY AND CONNECTED TRANSACTIONS *(Cont'd)*

Notes:

(1) A subsidiary of EganaGoldpfeil which is not within the Group ("fellow subsidiary").

(2) An associated company of EganaGoldpfeil which is not within the Group ("related company").

(3) A company in which Mr. David Wai Kwong WONG, an Executive Director of EganaGoldpfeil and the Company, was a director.

(4) Associated company of the Group.

(5) Sales to related parties were transacted at cost plus basis with a mark-up of approximately 5% to 300%.

(6) Purchase from related parties were determined on a cost plus basis with a mark-up of approximately 5% to 300%.

(7) Allocation of operating costs and rental expenses were charged at a cost basis in accordance with the terms specified in the relevant agreements.

(8) Royalty expenses charged by P.C. International Marketing Limited were covered by the agreements enumerated in the Company's Announcement dated 13th April, 2005. Royalties paid to Goldpfeil GmbH and Bartelli Leather Products Limited were covered by another license agreement, pursuant to which the Group was granted an exclusive right for design, manufacturing, and distribution of jewellery products under the trademark "Goldpfeil" on a worldwide basis at the sales royalty of 8% of the ex-factory price of the licensed products subject to a guaranteed minimum royalty of $8,000,000 per annum.

(b) During the year, the Group had transactions with related parties (as disclosed in Note 35(a) above), all of which were also deemed to be connected persons (as defined in the Rules Governing the Listing of Securities on the Stock Exchange), except for consultancy fees paid to International Taxation Advisory Services Limited and interest expenses paid to Rossolini Limited.

(c) The amounts due from fellow subsidiaries mainly arose from the allocation of operating costs to fellow subsidiaries according to the relevant agreements entered into between the Group companies and their fellow subsidiaries outside the Group (see Note 35(a)(7) for details).

(d) Except for an amount due to an associated company of approximately $90,000 (2004: $91,000) (see Note 16) and a royalty deposit paid to a fellow subsidiary of approximately $7,406,000 (2004: $14,079,000) (see Note 20) which were interest-bearing at commercial rates, all other balances with related parties and Directors were unsecured, non-interest bearing and repayable within one year.

36. SUBSEQUENT EVENT

On 9th August, 2005, the Stock Exchange granted the listing approval to the Company for the issuance of Tranche 4a convertible bonds of up to US$5,000,000 to Merrill Lynch. As at 14th September, 2005, Merrill Lynch has exercised its conversion rights to convert US$2,000,000 Tranche 4a convertible bonds into ordinary shares of the Company, resulting in an increase in shareholders' funds of approximately $15,600,000. The outstanding US$3,000,000 Tranche 4a convertible bonds will be expiring on 31st March, 2009.

37. APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 14th September, 2005.